

RIIO-ET Policy Working Group 6

10:00 – 15:25



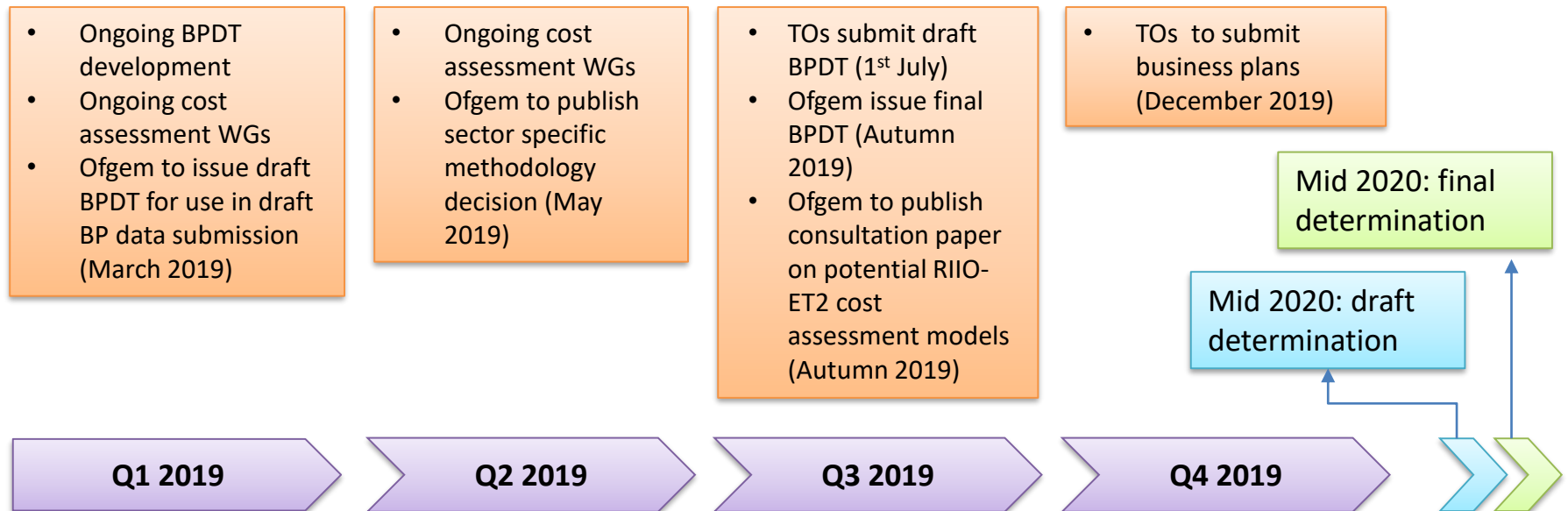
ET Policy Team
06/02/2019

Welcome and housekeeping

Aim of this working group

- Discuss policy development as set out in the ET2 Annex of the Sector Specific Methodology December 2018 consultation
- Invite your initial thoughts on the questions posed therein; in particular we welcome evidence based responses

Timeline – high level



Discussion and initial thoughts on the Consultation Document

Review and group discussion

10:10 – 11:30



In the following section, we want to encourage open discussion on some of the consultation questions that were posed in our December consultation.

The areas that will be covered are:

- Stakeholder Engagement Incentive (SEI)
- Stakeholder Satisfaction Output (SSO)
- Timely connections
- Energy Not Supplied (ENS)
- Losses
- Network Access Policy (NAP)

Environmental outputs will be covered in the afternoon session and will include:

- Environmental framework
- SF₆ and IIG
- Visual amenity

Stakeholder Engagement Incentive

Business plan incentive:

We expect companies to submit a clear strategy and plan for stakeholder engagement for the duration of the price control period. This strategy would be informed by company User Groups and would describe how companies will incorporate best practice from RII0-1 into their activities.

Potential ODIs to monitor performance during the control period:

Op. 1: No ODI for stakeholder engagement: Under this option, we would not have an SEI in RII0-ET2.

Op. 2: Reputational incentive: Under this option, we would report annually on companies' performance on stakeholder engagement.

Op. 3: Financial incentive: Under this option, we would reward or penalise companies for their performance on stakeholder engagement.

| | |
|------|---|
| ETQ5 | We welcome views on whether a specific incentive for stakeholder engagement is appropriate in RII0-ET2, and if so, whether this should be reputational or financial. |
| ETQ6 | Do you think individual components of the SSO should be combined into a single incentive mechanism in RII0-ET2, should the SEI and components of the SSO be retained? |
| ETQ7 | We invite views on types of business plan commitments that would be appropriate for stakeholder engagement. |
| ETQ8 | We welcome views on the potential approaches to setting a financial incentive for the SSO in RII0-ET2, if retained. Are there any other considerations we should take into account if we move to a fixed reward pot that network companies compete for? |

Stakeholder Satisfaction Output



We proposed two options in the December document, and sought views on the following:

Option 1: Remove all of the components of the SSO

Option 2: If retained, we are consulting on:

| | |
|-------|---|
| ETQ9 | Do you have any views on whether we should retain a TO User Survey, targeted at a number of key areas as identified in this document? Are there any alternative mechanisms to address potential issues in these areas we should be considering? |
| ETQ10 | Are there any other areas, beyond those identified in this consultation document, which we should consider targeting through a potential survey? |
| ETQ11 | Do you have any views on our proposal to retain one question on overall satisfaction from which the scores will be collated? |
| ETQ12 | Do you agree that we should use RII0-ET1 performance as a starting point for setting a RII0-ET2 baseline? What alternative approach(es) should we consider? |
| ETQ13 | Do you agree that the User Groups could provide guidance on the stakeholders that should be included in the survey sample? Are there any specific stakeholders that you think must be surveyed to improve the validity of the scores? |
| ETQ14 | Do you agree with our proposals to remove the financial incentive associated with the KPI and EA components? Should the EA component be retained as a minimum requirement/ licence obligation? |

Timely Connections

| | |
|--------------|---|
| ETQ15 | Do you have any views on whether we should retain the RII0-ET1 Timely Connections Output (which applies to the connection offer stage) for RII0-ET2, including the penalty rate, and extend it to NGET? |
| ETQ16 | Do you have any views on options for capturing the quality of the overall connections process through our stakeholder engagement proposals, for example through the use of a survey? |
| ETQ17 | Are there any alternative options for capturing the quality of the overall connection process, not identified in this consultation document, which we should be considering? |
| ETQ18 | How do you think we can ensure that transmission operators are not rewarded and/or penalised for actions actually undertaken by the System Operator? |

Energy Not Supplied

| | |
|--------------|--|
| ETQ19 | Do you have any views on whether we should retain the ENS incentive, and whether we should retain it as a positive reward mechanism, or move towards a penalty-only scheme? What impact could the move to a penalty-only mechanism have on TO decision-making and behaviours? Please evidence. |
| ETQ20 | Do you have any views on how Ofgem should take into account issues other than past performance when determining baseline targets? For example, processes adopted as BAU, increased TO experience and expertise on fault mitigation and management, future modernisation projects, etc. What adjustment mechanisms are appropriate? |
| ETQ21 | Is the introduction of an improvement factor appropriate within the context of the electricity transmission system? What other mechanisms are appropriate? |
| ETQ22 | We welcome views on additional considerations we should take into account when setting baseline targets? |
| ETQ23 | Do you agree with our proposals to base the ENS incentive rate in RII0-ET2 on an updated, agreed VoLL? |
| ETQ24 | Do you agree with our proposals to retain the financial collar for the ENS incentive in RII0-ET2? |
| ETQ25 | We welcome views on approaches to estimating embedded generation at GSP points. |

Energy Not Supplied continued

| | |
|--------------|---|
| ETQ26 | What measures need to be in place to facilitate the collection of data on embedded generations and other real time information? How do you propose to approximate embedded generation data? |
| ETQ27 | We invite views on changing the metrics used to measure reliability on the transmission system from MWh lost to CI/CML. What measures and processes (e.g. data sharing frameworks) need to be in place to facilitate the collection of CI/CML data? |
| ETQ28 | Do you have any views on whether all loss of supply events should be incentivised? Do you have any views on amending the scope of the definition of events excluded as 'loss of supply events' and/or 'exceptional events'? |

Losses

| | |
|--------------|---|
| ETQ43 | Do you have any views on the proposed approach for integrating any losses reporting requirements into the proposed business plan and annual public reporting framework? |
| ETQ44 | Do you have any views on the introduction of a target or measure for improving metering at and the energy efficiency of substations? How could this work in practice? |

Network Access Policy (NAP)

| | |
|-------|---|
| ETQ53 | Do you agree with our proposed approach to safety? ** |
| ETQ54 | Do you agree with our proposal to retain the NAP as a licence obligation? |
| ETQ55 | Do you have any views on the potential risks and benefits of introducing a single, consolidated NAP, and of expanding the NAP to cover interactions with third parties? |
| ETQ56 | We welcome views on these proposals, and on any potential interactions and/ or duplications between these proposals, the NAP and the STC. |

** We included safety discussion chapter 5: maintaining a safe and resilient network. Specific outputs related to safety such as NARMs and cyber resilience were included in the core document as they are cross sector covering GD and GT and ET.

RIIO-T2 Proposed Output Incentive Package

6 February 2019



Reflecting on the consultation: what's in the outputs incentive package?

- The proposed outputs incentive package to deliver the RII0-2 outcomes has:
 - significantly reduced upside value with **less than half** the potential reward value in RII0-1 to RII0-2 and
 - increased the downside risk with more penalties introduced: next slide →
- As always, incentive reward is gross, but actual return is **net of Totex** invested to achieve the output performance
- And likely to make this outputs incentive package less attractive are:
 - tighter baseline targets, dynamic targets (despite tighter targets) and relative targets
- And proposed in the wider price control:
 - RAMs, allowed v expected returns wedge on CoE proposals; weaker Totex Incentive Mechanism Sharing Factor (affecting BAU innovation); weaker business plan incentive; proposed weaker innovation stimulus
 - Expectations to deliver more in an output enhanced baseline settlement
- Reward v Risk. The reward must be sufficient to drive the right behaviour to take risk

| ET RIIO2 Stakeholder Incentives | WG 6 RIIO-T1 Incentive Value | RIIO-T2 Incentive Value (Potential £m) | Comments |
|--|---|---|---|
| Stakeholder Engagement Incentive | £10m total incentive (Discretionary Reward only) | Max Incentive: £6.25 Reputational Incentive - £0 Reward/Penalty or Penalty Only - (£6.25) | Ofgem may decide this is a reputational ODI or incorporate the SSI and SEI which will reduce the available incentive. Ofgem are also consulting on making this incentive penalty only or reputational and may be £0 incentive. |
| Stakeholder Satisfaction Survey | £14m maximum incentive available (Reward/Penalty) | Max Incentive: £8.75 Reputational Incentive - £0 Reward/Penalty or Penalty Only - (£8.75) | Ofgem's preference is to keep the Survey only. This will reduce the maximum available incentive value. Ofgem are also consulting on making this incentive penalty only or reputational and may be £0 incentive. |
| Energy Not Supplied | Max RIIO-T1 incentive - £9m (Reward/Penalty) | Max Incentive: £5.6 Reward/Penalty or Penalty Only - (£5.6) | Ofgem will be looking to tighten the base line which will reduce incentive value. |
| SF6 and other IIG leakage | Total RIIO-T1 incentive £1.4m (Reward/Penalty) | Max Incentive: £0.9 Reputational Incentive - £0 Reward/Penalty or Penalty Only - (£0.9) | Ofgem are exploring whether the SF6 leakage output requires a financial incentive (Reward/Penalty or Penalty only) or a reputational. |
| Environmental Discretionary Reward (EDR) | £32m discretionary reward per annum. A pot competed by all TOs. SHE Transmission have achieved £4m so far in T1. | £0 | Ofgem are consulting to remove this incentive. |
| Incentive value Range | £67m | Max Reward: £21.5 Reputational Incentive: £0 Reward/Penalty or Penalty Only: (£21.5) | |
| Pro Rata RIIO-T1 v RIIO-T2 Max Reward per annum | £8.4m | £4.3m (likely c£3m as assuming similar reward for stakeholder engagement as per RIIO1 but likely merged) | |

Reflecting on the consultation: substance v ambition – do they align?

- **Ofgem ambition** - to strengthen the role of incentives and reward companies through incentives:
 - RII0-1: Revenue = Incentives + Innovation + Outputs *versus* RII0-2: Revenue being set using Incentives to deliver Innovation and Outputs [and the three consumer facing outcomes]
 - Subtle but important change in strengthening the role of incentives as a catalyst to meeting the ambition of RII0
 - Statements like: Ofgem “want to continue to use **strong** incentive-based regulation to align the interests of companies and consumers in delivering high quality service ...[where] the better performing companies will be able to earn higher returns if they are able to improve the quality of service”.
 - Recognises that strong incentive-based regulation requires motivation to encourage good behaviour and discourage bad behaviour (ie using individual incentives and social norms)
- Does **Ofgem substance** match the ambition?
 - Less upside, more penalty/asymmetric, uncertainty (dynamic and relative targets) all constrain improvement than encouraging companies to stretch

Achieving the right balance between (a) improving performance and (b) reducing cost is key to the success of RII0-2.

Disproportionate focus on the latter (b) at the expense of (a) is not the right thing for consumers.

Reflecting on the consultation: problem v solution – do they align?

○ Ofgem problem/challenges for RII0-ET2 as set out in the consultation:

1. “higher than expected returns...largely driven by a significant underspend in allowances”
2. Key challenges: managing EST, managing uncertainty, and embedding performance improvements as BAU to ensure fair deal.

This does not necessarily point to a reduction in the core outputs incentive package

1. “higher than expected returns...largely driven by a significant underspend in allowances”
 - Disagree with the statement: Ofgem’s RII0-T1 expectations were clear that “double digit returns were available for good performers” (note: SHE T = 9.7%). Underspend due to efficiency is a good thing for consumers.
 - Regardless, this solution to this perceived issue is not dealt with through a reduced output incentive package (but via TIM).
2. Key challenges:
 - **managing the EST** remains a significant challenge (next slides →) and should be supported by both a strong baseline settlement and an ambitious, not weakened, incentive package
 - **managing uncertainty** – RII0-T1 had effective mechanisms and should continue, and we are supportive of PCD
 - **improvements as BAU to ensure fair deal** – agree with this, but Ofgem must recognise BAU incurs cost to deliver. Not to do so would limit what has been achieved in RII0-1 (see next slide →)

Achievements in RII0-T1

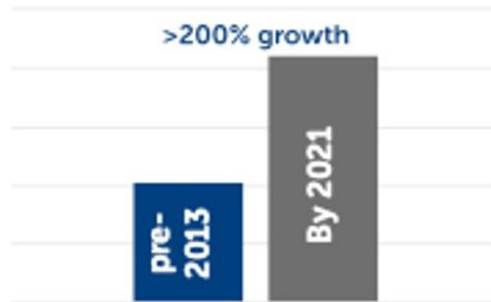
Build on the success through the incentive package and BAU baseline



8.1GW*



£3.5bn*



Reliability

Out-performed the target every year



Customer Service

Average satisfaction score of 7.8 / 10



Connections

100% on-time delivery



9.7%

Return on Regulatory Equity

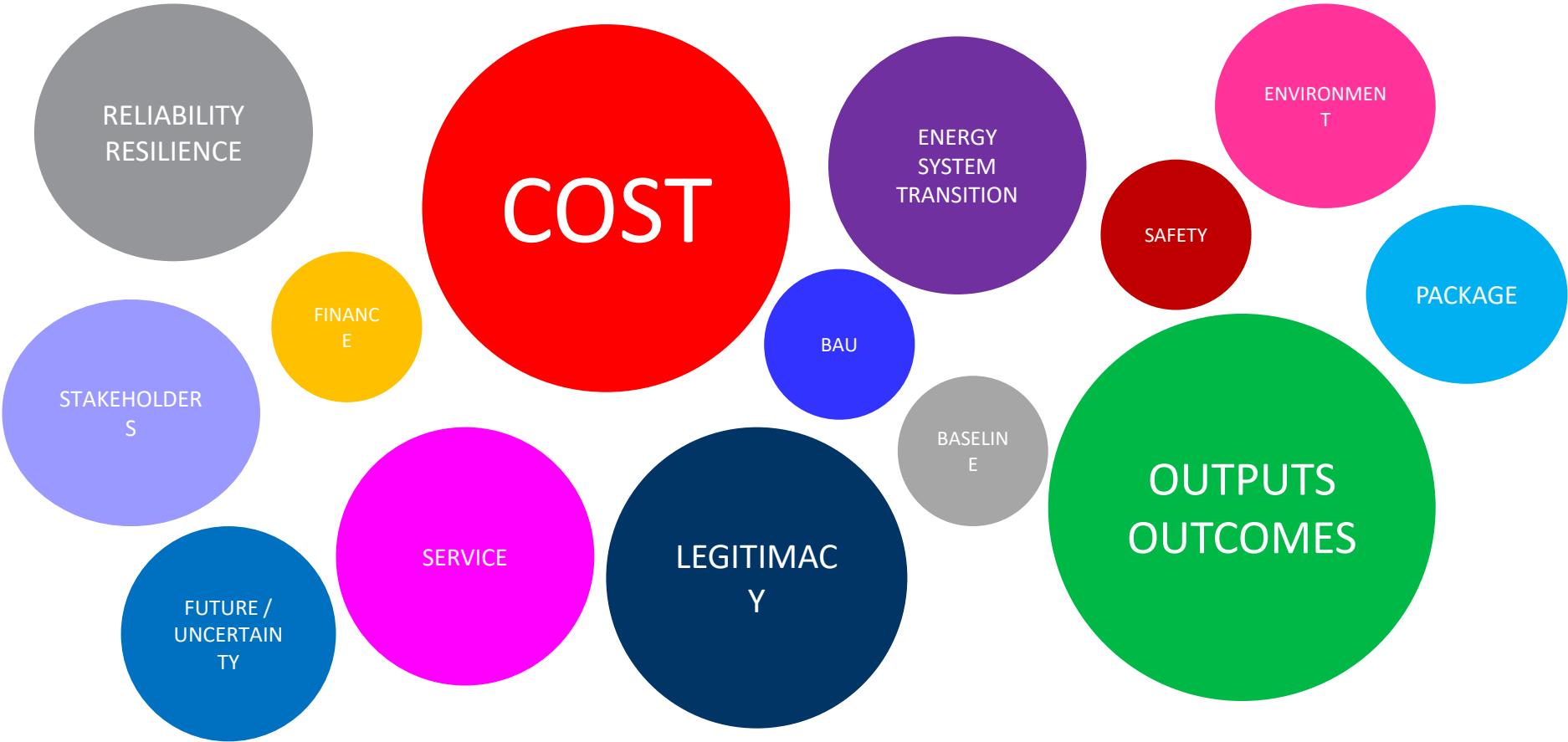
Reflecting on the consultation: an outputs incentive package to meet EST challenges? (1)

- **Considerable progress has been made BUT there is much to do**
 - ✓ In Q3 2018, UK's renewable electricity capacity totalled 43GW (of c.82GW total); low carbon generators = 56% of electricity consumed v 22% 10 years before.
 - ! But decarbonisation of gas and petroleum requires electrification of the heat and transport sectors
 - ✗ CCC advise there are gaps in the policy proposals to achieve the 4th (2023-27) and 5th (2028-32) carbon budgets, incl. targets for low carbon electricity generation
- **Transmission networks have an important and ongoing role in enabling the clean EST:**
 - provide the **necessary network infrastructure** and **policies for the cost-effective connection** of renewable generation. For SHE Transmission while the power sector in Scotland has largely decarbonised, the sector is expected to expand to facilitate reductions in other areas through electrification and export to the rest of GB.
 - support the industry changes necessary for **decentralisation through locally owned and operated energy system**. This will require whole system approaches with SHE Transmission, SHEPD, National Grid and other stakeholders.
 - to **engage with our customers, communities and stakeholders** to ensure their needs are fully expressed and addressed in the national clean energy transition.

Reflecting on the consultation: an outputs incentive package to meet EST challenges? (2)

- **CONTINUES to requires Transmission Networks to play a key role in the 4Ds:**
 - **Decarbonisation:** accommodating new types and sizes of generators that are intermittent and sparsely located far from population centres
 - **Decentralisation:** accommodating energy that is produced, and increasingly stored, close to where it will be used
 - **Digitisation:** use of new communications technology and analytical tools to improve the productivity and performance of electricity networks, incl. the resilience of the network to cyber threats
 - **Democratisation:** involving customers, communities and stakeholders across GB in the way that networks are planned and operated. In particular, the voices of the vulnerable and fuel.
- **Requires:**
 - **Sufficient baseline** settlement to deliver PCDs
 - **Strong incentive-based package** across environment, stakeholder engagement, connections , reliability, and in line with Ofgem ambition to stretch performance
 - Bespoke ODIs should **complete the package** but should not be the substance of the package
 - the high bar works **if** the LO/PCD baseline and TO-wide incentive package provides opportunity to sufficiently deliver against the ambition for the EST

This should be sufficient to meet the majority, not all, of the EST ambitions



Whole Systems Benefits – Initial ET Discussion

11:30 – 12:20



Jo Gaches

Six potential mechanisms proposed:

- Business planning incentive
- Whole systems-focused innovation
- Coordination and information sharing incentive
- Balancing financial incentives
- Uncertainty mechanism – eg, coordinated re-openers
- Discretionary incentive

Not necessarily implement all six mechanisms – but consulting on designs and combinations which give us the flexibility to form a cohesive package that best unlocks whole system benefits for consumers.

The actions of a network company can impact other network companies in the same or other energy sectors, as well as non-energy sectors such as transport. As these linkages grow, so too does the value of coordination across the whole system.

At the workshop yesterday, we sought:

1. initial reactions to the proposals in the December consultation
2. detailed views on each mechanism – and then on the potential set of mechanisms as a package within the price control
3. directed feedback for each mechanism
 - potential activities?
 - evidence as to any consumer benefit?
 - thinking of the proposed scope / definition - to which sectors and/or energy sources these activities are most pertinent?
 - potential interactions with other aspects of the price control

1. Business planning incentive proposal:

A network's whole system ambition, and the cost-effectiveness of achieving it, is assessed and rewarded through the business plan assessment process.

The proposed incentive will encourage networks to look for projects/approaches which are above and beyond BAU, and to demonstrate the additional benefit for consumers.

2. Innovation proposal:

Proposal to introduce a new element to the innovation stimulus which supports projects considered genuinely innovative and where evidence suggests an associated whole system benefit or approach. In parallel, the gas and electricity innovation strategies to contain a whole system innovation element. Specific innovation funding is often required, as it may not be delivered under ex ante regimes.

3. Co-ordination and information sharing proposal:

Networks are able to undertake projects in alternative ways. Investigation of these alternatives have an associated resource cost, but may reveal approaches which generate benefits to other networks. This incentive is to encourage networks to undertake these investigations and share the information with other networks and sectors.

4. Balancing financial incentives proposal:

The totex incentive mechanism encourages networks to pay each other for services if doing so achieves outcomes more cost-effectively. However, such payments do not always match the risk-adjusted value of investing in traditional network solutions (delivery of a price control deliverable may increase RAV more profitably than payment from another network).

5. Coordinated reopeners proposal:

Uncertainty mechanisms with a specific whole system focus. Proposal to allow coordinated reopeners for projects which cut across multiple networks, and were not foreseen at the time of business planning. Networks propose projects they are not funded to deliver through baseline revenues or other incentives (eg innovation funding).

6. Discretionary funding proposal:

Similar to previous, discretionary funding might be granted to a single network where the benefits may be difficult to obtain (due to coordination costs, etc) or unknown during the initial business planning process.

When thinking about the mechanisms:

Specific question for discussion [CSQ12]: Which of the possible mechanisms we have outlined above could pose regulatory risk, such as additionality payments or incentivising the wrong behaviour?

Informal follow up with us very welcome: Joanna.Gaches@ofgem.gov.uk ; Zak.Rich@ofgem.gov.uk

Formal responses to RII0-2 sector specific methodology consultation by 14th March 2019: to RII02@ofgem.gov.uk

Ofgem decision in May 2019

The ESO view on whole electricity system

RIIO-2 ET Policy working group
6 February 2019

David Bowman

The ESO's whole electricity system view

Informed by stakeholder feedback, our view of the future energy landscape is based on world where:

- Planning, development, investment and operation of the GB networks will be optimised on a whole electricity system basis irrespective of ownership boundaries.
- Solutions to ESO challenges will be open to a full range of participants, facilitating both market and asset solutions.
- The ESO works closely with DSOs to ensure routes to local, regional and national markets are aligned and optimised collectively.

The following topics are crucial to enabling our view

Appropriate
information and
data provision

Accessible and
aligned
frameworks

Consistent and
transparent
flexibility
markets

Clear and
coordinated
roles and
responsibilities

Managed
system risk and
resilience

How we're facilitating whole system outcomes

We believe that facilitating whole electricity system outcomes will ensure that industry arrangements develop in a way that maximises consumer value

Providing thought leadership

- 'Facilitating Whole Electricity System Outcomes' & 'Whole Electricity System Thinking':
<https://www.nationalgrideso.com/insights/whole-electricity-system>

Working with others

- Playing an active role in the Open Networks project

Developing new ways of working

- Using our collaborative initiatives to learn how the ESO needs to change

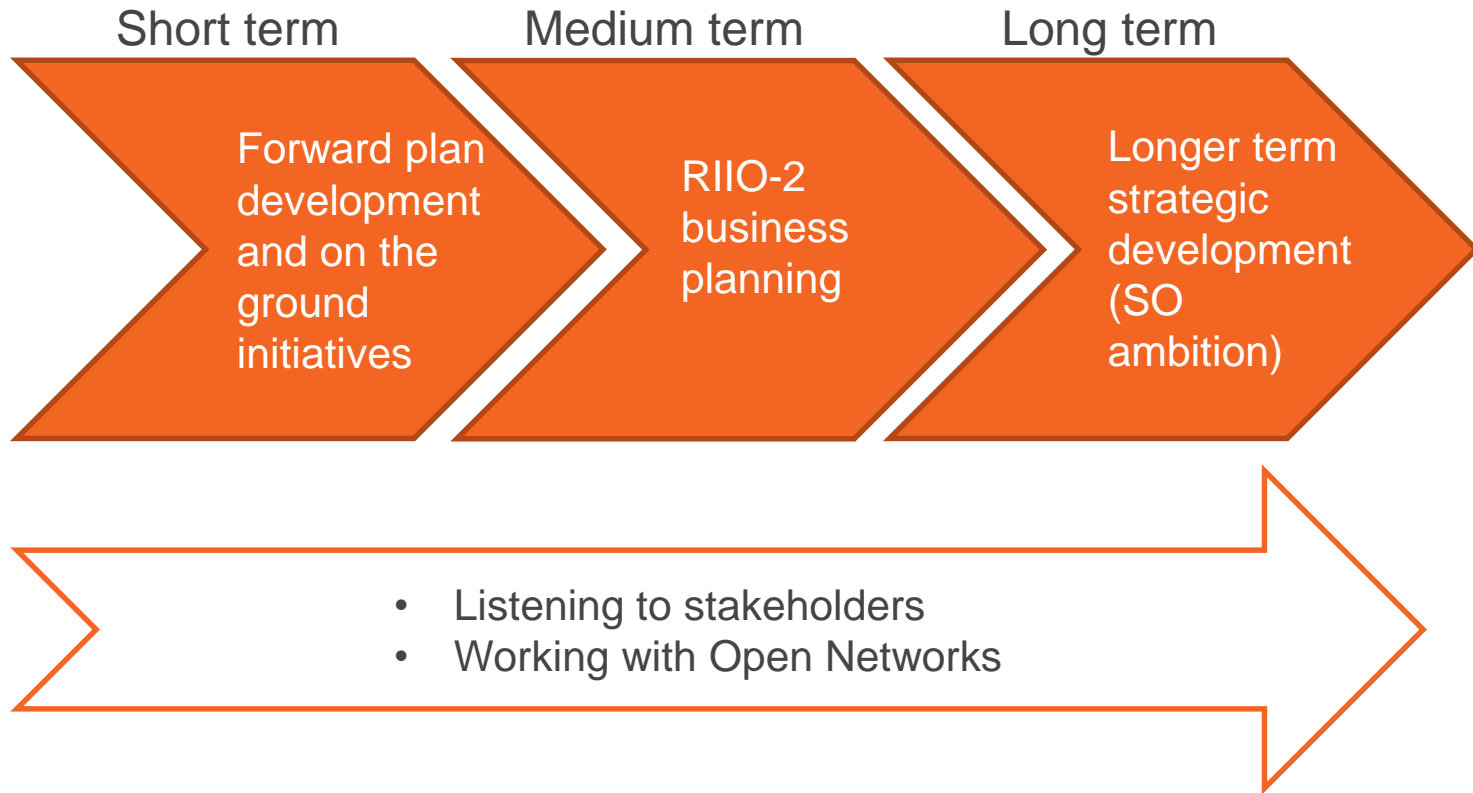


Power Potential

This initiative aims to create a new reactive power market for distributed energy resources (DER) and generate additional capacity on the network.



Next steps





nationalgrideso.com

Faraday House, Warwick Technology Park,
Gallows Hill, Warwick, CV34 6DA

LUNCH

12:20 – 13:00



Competition – First Impressions

13:00 – 13:45



Zak Rich, Timothy Wood

- Late competition
- Early Competition
- Native Competition

Early competition

- Thoughts on proposed criteria?
 - From late models
 - new, high-value, separable
 - Other considerations
 - *time criticality, certainty (need and specification), contestability of solutions*
- Advantages and disadvantages of 1-stage and 2-stage models (as outlined in the RII0-2 Sector Specific Methodology consultation paper)?

Native competition

- What competitive processes do you already have in place?
- We welcome views on our proposals for enhancing native competition practices

Competition (other issues)

- For non-native competition, how do we best ensure the competitions are fair and transparent (and the bidding market to have confidence that this is the case)?
- Which institution do you consider is best placed to run early and late competitions?

Competition

| | |
|--------------|---|
| CSQ51 | Have we set out an appropriate set of models for both late and early competition to explore further? |
| CSQ52 | Do you agree with the proposed criteria we have set out for assessing the suitability of late competition models? Would you suggest any other criteria, and if so, why? |
| CSQ53 | Do you have any views on the costs and benefits we have used for our draft impact assessment on late competition? |
| CSQ54 | Are there any considerations for a specific sector we should include in our IA? |
| CSQ55 | What are your views on the potential issues we have raised in relation to early competition? How would you propose mitigating any issues and why? Are there additional issues you would raise? |
| CSQ56 | Are there other potential drawbacks of early competition? |
| CSQ57 | Do you consider that there are any existing examples of early competition (including international examples or examples from other sectors) which demonstrate models of early competition that could generate consumer benefit in the GB context? |
| CSQ58 | What are your views on the advantages and disadvantages of the high level approaches to early competition outlined? How would you recommend mitigating any disadvantages? |
| CSQ59 | Do you have any views on the potential criteria for identifying projects for early competition discussed above? Would you suggest any other criteria, and if so, why? |
| CSQ51 | Have we set out an appropriate set of models for both late and early competition to explore further? |

Competition

| | |
|--------------|--|
| CSQ60 | Do you agree with the criteria we have set out for assessing who should run competitions? Based on these criteria, which institution do you consider is best placed to run early and late competitions? |
| CSQ61 | Do you agree with how we have described native competition? Do you agree we should explore the proposals described above to enhance the use of native competition? Are there any other aspects we should consider? |
| CSQ62 | How do you think competition undertaken by network companies should be incentivised? Is the use of totex the best approach? Will this ensure a level playing field between network and non-network solutions including the deployment of flexibility services? |
| CSQ63 | What views do you have on an approach where totex allowances would be based on costs revealed through competition, with a margin or fee for the competition-running entity? |
| CSQ64 | Do you think the ESO could have a role to play in facilitating competition in the gas sectors? |

Ofgem Policy and Output Working Group



WG 6 – 6 Feb 2019

Competition

Competition in RIIO-T2

Timing of development of network investment and market solutions work against a traditional competitive approach, Suggest a CBA of lifetime benefits to identify solutions is required.

Delivery is already 95% competed. Competition of ownership still not demonstrable in consumer interests. Stuck in legislation

Figure 4: RIIO-2 examples of types of competition

Would need to build experience in tendering for commercial solutions.

| | | When the competition is run | |
|--------------------------|---|---|------|
| | | Early | Late |
| Who runs the competition | Ofgem or System Operator or Third Party | System-wide competition for reinforcement deferral or replacement run by ESO Flexibility markets operated by a DSO | CATO |
| | Network licensee | Flexibility market operated by a DNO Network-led competition to meet new system need (eg Shetland Energy Solution) | SPV |

8.59 We want to use competition to drive cost efficiencies where it is possible and likely to deliver a net benefit to consumers

Proposals more appropriate for ED2 than ET2

Competition in RIIO-T2

Solutions vs Competition

An example:

- Para 8.72 “contestability” in network reinforcement – we are delivering this in Dumfries and Galloway region to deploy a reduced infrastructure solution supported by a generation constraint energy management system (GEMS) with the ESO responsible for securing appropriate commercial contracts. Completion in 2023

Current Opportunities:

1. New Connections - Reinforcement < £100m: The development of commercial solutions instead of infrastructure reinforcement is not yet established in the business as usual connections process for smaller value, non-boundary impacting reinforcement.
2. Network investment - ESO could support our price control investment plans to mitigate whole system costs.
3. System Operations - STCP 11-4 linking infrastructure solutions to mitigate risk of high constraint costs in system outages. This is in place now but lack of clarity on due process and governance is limiting opportunities being

Competition in RIIO-T2

What can Competition in ET2 Look like?

Our view: Ownership and delivery of infrastructure. Commercial solutions to mitigate constraint costs and other system operability solutions. ESO is developing its NOA process. ENA establishing DSO 's

Issues to overcome:

- the CATO requires legislation to be delivered and given that it looks like legislation which won't be coming any time soon due to parliamentary pressures. CPM and SPV offering limited competition
- The deliverability of infrastructure solutions can have longer lead times than development of commercial solutions. So commercial solutions need to be identified as part of the price control investment cycle. Competition for providers will come later
- Commercial solutions to mitigate constraints require protection infrastructure solutions to support them. These need to be funded as well.
- Running competitions may need a specialist provider (para 8.84)

Comments and Questions

- How does "native competition" fit in RIIO-T2 ?
- Ofgem's proposals developing competition distracts from the need for solutions and developing appropriate processes that frame competition effectively
- Para 8.82 – identifies appropriate steps but and these are the areas that need developed and understood before we can identify how we can deploy competition in RIIO-T2
- **Native Competition** (Para 8.89) is more appropriate for RIIO-D2
- **In their business plans, network licensees should outline their competition procedures** (Para 8.91) This is not practicable for ET2
- **blended sharing factors** (para 8.96) is Ofgem's expectation that this can be implemented for ET2?

NG position on competition for RIIO-2

Jenny Mills
Regulatory Strategy, UK Regulation,
National Grid

Disclaimer

This document and the contents hereof are without prejudice to National Grid Electricity Transmission plc's position in respect of the Competition Proxy and SPV delivery models, which have yet to be implemented in our licence. Our position has previously been set out in our consultation responses of 11 October 2017, 20 March 2018 and 9th November 2018, and in subsequent correspondence. Nothing contained herein should be considered as an acceptance in whole or in part of the Competition Proxy or SPV delivery models.



Our view of existing competition models

| CATO | Competition Proxy | SPV | Native Competition |
|---|---|---|--|
| <ul style="list-style-type: none">• Well developed model• Licence gives regulatory scrutiny, clear responsibility, and statutory powers• Potential for early or late variants however early model maximises potential for consumer benefit• Support Ofgem's proposal to seek legislation | <ul style="list-style-type: none">• No competitive process- no innovation or price discovery• Current proposals do not represent realistic outcome of a competition• We do not support this• Consumer benefit assessment not correct | <ul style="list-style-type: none">• Licence needed to participate in transmission• Reduced regulatory powers, unclear accountabilities and risk allocation• Additional risk for TO which is not remunerated• Outstanding questions e.g. changes required during operational period• Consumer benefit assessment not correct | <ul style="list-style-type: none">• We understand this to be the status quo (TO runs procurement process)- works well• Totex incentivises TOs to seek savings to share with consumers• Interested to explore incentives for this (as proposed in consultation) |

Need clear criteria to determine which projects are suited to which delivery model

Different Sectors

Use same competition criteria, with slight adaptations as required

- Cost of running a competition similar across all sectors- so must ensure that benefits outweigh transaction costs
- Certainty for stakeholders
- Enables distribution solutions to transmission problems and vice versa



Competition models originally developed for ET

Pipeline of projects meeting criteria

Focus on legislation for CATO

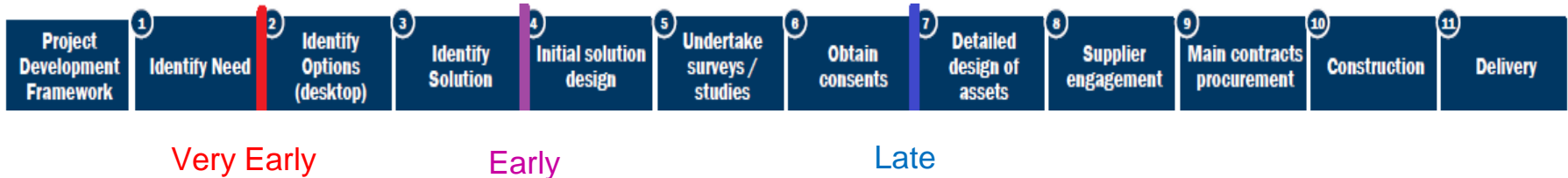
In absence of legislation, explore native competition and opportunities to incorporate flexibility providers



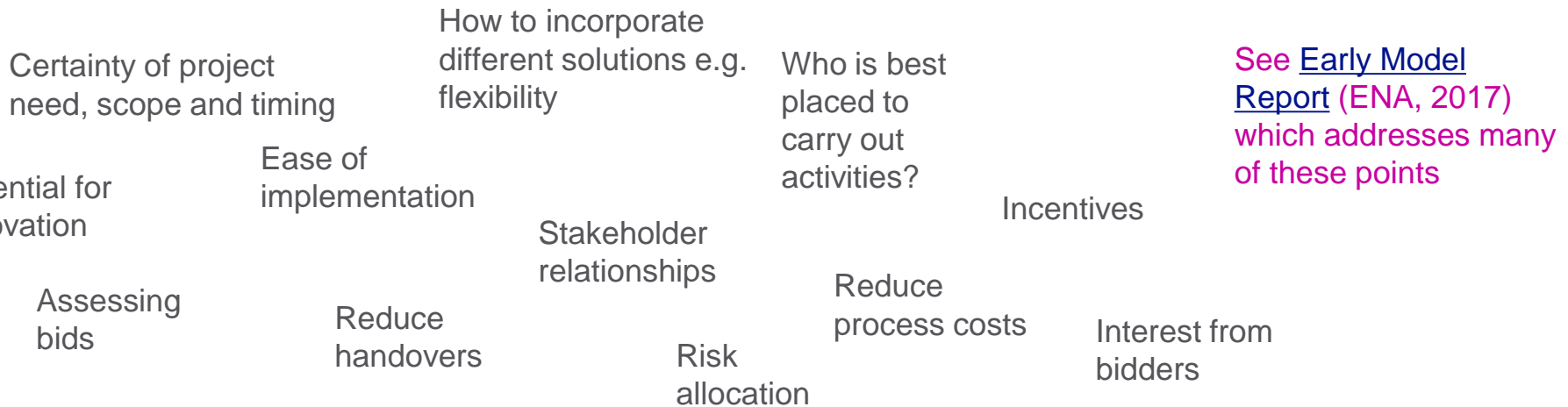
Do not expect pipeline of eligible projects

Could explore native competition and associated incentives for projects which don't meet criteria

CATO model- when should the competition be run?



- Running the competition earlier gives more potential for innovation and consumer benefit, but less certainty around project requirements
- Late models easier to implement, earlier models can evolve from this
- Different projects suited to different models
- Factors to consider:



Large Capital Investment Projects

13:50 – 14:15



Fraser Glen

Key Messages

- Large transmission capital investment projects strengthen and extend the electricity network, enable the connection of new generation, improve efficiency and ensure that the network complies with SQSS.
- When these **projects are delayed or not successfully delivered** to the required level of quality, it can be **detrimental to consumers** and result in an increase in system constraint costs or security of supply implications.
- In designing outputs and incentives for RII0-2, we will take into account RII0-1 lessons learnt, specifically recommendations from mid-period review (MPR) relating to Western HVDC Link (WHVDC).
- We are looking to **drive efficient delivery** of large capital projects while **ensuring consumers are protected** from the effects of delay and/or reduced quality of delivery.
- For RII0-2, we are consulting on several options that could create a **more competitive environment** and **drive benefits for consumers**.

Purpose of Today

- Provide discussion on our proposals for successful delivery of large capital investment projects.
- Initial reactions to the proposals in the December consultation document.

Background

- In electricity transmission, **when large capital projects are delayed or not successfully delivered** to the required level of quality it can be **detrimental to consumers** and result in an increase in system constraint costs or security of supply implications.

Policy Objective and Intended Effects

- For RII0-ET2, we want to **simplify and clarify the price controls**.
- **Companies should not benefit from delay in delivery** or failure to deliver a Price Control Deliverable (PCD).
- **Reduce the detriment to consumers** resulting from delayed or unsuccessful and/or poor quality delivery.
- Large capital investment projects are, by nature, bespoke. The **range of options** and tools for ensuring the successful delivery of these projects should be reflective of this.
- We also recognise the need to achieve the **right balance** between ensuring our regulatory framework protects consumers and continuing to ensure TOs deliver these types of projects in an economic and efficient manner.

Proposed Approach

- To **ensure that there is no benefit to companies from delay** and/or poor quality delivery we are consulting on the following options:
 1. Re-profiling allowances.
 2. Introducing a milestone-based approach.
- To **minimise Consumer Detriment**, we are consulting on the following options:
 1. Introduction of a penalty reflective of (i) forecast reduction in constraint costs, (ii) actual constraint costs incurred.
 2. Pre-defined 'day rate' type payment to be made by TOs to consumers in event of delay.

Large Capital Investment Projects

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| ETQ57 | Do you agree with our proposed approach for ensuring TOs do not benefit financially from delays in delivering large capital investment projects? |
| ETQ58 | We invite views on the suitability of the milestone approach, the types of milestones or delivery criteria we should be considering and any potential challenges associated with implementing such an arrangement. |
| ETQ59 | Are there are alternatives which we should also consider? |
| ETQ60 | We invite views on the circumstances we should consider options for minimising consumer detriment and/or sharing consumer detriment with consumers. |
| ETQ61 | We are seeking views on these two options, including ways in which we could measure and reflect consumer detriment. |
| ETQ62 | Are there any alternatives not identified here which you think we should be considering? |

Environment

14:15 – 14:40



Environmental Framework

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| ETQ33 | Do you have any views on the extent to which company activities relating to environmental impacts should be embedded in Business Plans? |
| ETQ34 | We invite views on whether the proposed environmental impact categories are appropriate areas to focus on. Are there any areas that should be excluded and/ or other areas that should be covered? We also invite views on the potential indicators and/ or metrics that are appropriate for each environmental impact category. |
| ETQ35 | We welcome views on the option of an annual reporting framework to increase transparency of the transmission networks' impact on the environment. |
| ETQ36 | We welcome views on whether we should introduce an option for the TOs to develop bespoke ODIs with stakeholders for delivering an additional contribution to the low carbon transition. |
| ETQ37 | We invite views on the kind of activities, not captured elsewhere, that could be captured through such ODIs. |
| ETQ38 | We invite views on how such an ODI might operate, and any other factors we should take into account in considering bespoke ODI for the low carbon transition. |

SF6 and IIG

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| ETQ39 | We welcome views on whether we should retain a financial reward and penalty incentive for the leakage of SF6 in RII0-ET2, or move to a penalty only or reputational incentive. |
| ETQ40 | We welcome views on the potential impact of a move away from a financial incentive (or move to penalty-only) on TO behaviours. |
| ETQ41 | We invite views on whether leakage from other IIGs should also be captured in the incentive measure. |
| ETQ42 | We welcome views on whether some leakage events should continue to be excluded from the incentive. |

Visual Amenity

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| ETQ45 | We welcome views on incentivising the TOs' engagement with stakeholders on the development of new transmission projects through our stakeholder engagement proposals, for example through the use of a survey. |
| ETQ46 | Do you have views on the retaining the existing scheme to mitigate the visual impact of pre-existing transmission infrastructure in designated areas? Do you agree that any decision to implement new funding arrangements should be subject to updated analysis around willingness to pay? |
| ETQ47 | Do you agree with our proposals to modify the implementation process by which funding requests for mitigation projects are submitted and approved? |
| ETQ48 | We welcome stakeholders' views on any other considerations they think are relevant to policy development for visual amenity issues in RII0-ET2. |

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.